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ON ISSUES FACING THE GRAIN INDUSTRY TODAY

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WHEAT BOARD REPORTS ON ISSUES FACING THE GRAIN INDUSTRY TODAY

Each year the Commissioners of the Canadian Wheat Board participate in the annual meetings of many farm organizations in Western Canada. This gives members of the Board a welcome opportunity to report to producers on the activities of the Wheat Board and developments in the markets for Prairie grain.

The exchange of information and ideas that takes place at these meetings is invaluable. A much better understanding of the factors that influence the sale and price of Canadian grain in world markets is achieved.

This report consists of excerpts from speeches given by the Commissioners of the Canadian Wheat Board at farm meetings during the past few months. The speeches dealt with developments that have taken place in the Canadian grain industry and the international grain market.

RECORD EXPORTS OF PRAIRIE GRAIN

A new record in total grain exports was established in the last crop year. Exports of all grains exceeded 700 million bushels. Wheat exports increased from 346 million to 435 million bushels; barley exports doubled, from 88 million to 179.5 million bushels; rapeseed sales rose from 22 to 46 million bushels and oats rose from 4.8 to 13 million bushels.

An examination of our export performance shows in fact that the current impetus in overseas shipments began with the opening of Lakehead navigation in the spring of 1970. In the 21 months since then Canada has exported an impressive total of one billion, 279 million bushels of grain. That is quite an accomplishment and full credit should be given to handling, transportation and marketing organizations which helped to bring it about.

Thankfully, the end of the record movement is not yet in sight. Except for the usual winter lull in the East the accelerated pace of export shipments will

continue unabated, at least until the end of the present crop year. With the sales that are already in our books, we expect that grain exports in this crop year will match, if not exceed, the record 700 million bushels exported in 1970-71. If this is attained Canada will have exported 1.4 billion bushels of grain in two crop years.

Outlook Better Than Expected

There was considerable concern in Canada this year about the big increase in barley acreage and production. The concern grew as it became apparent that both the United States corn and Western European grain crops would be much higher this year than last. However, with a large barley as well as wheat supply in sight the Board moved early in the year to find and take advantage of all possible market opportunities for barley and wheat. We knew we had to move early if we were to get a good start before the big United States corn crop came on the market. As a result the 1971-72 export sales picture for barley is now much brighter than many people thought possible just a few months ago. In fact we will exceed last year's record barley exports of 179.5 million bushels. As a result, it was announced that producers can expect a barley delivery quota of 20-25 bushels per quota acre this year. This announcement helped to strengthen local non-Board prices and reduced reports of large local sales at distressed prices.

Wheat exports are also off to a good start this year and we believe 1971-72 wheat and flour exports should come up to or perhaps surpass the 1970-71 level of 435 million bushels. This is encouraging since the world trade of wheat is expected to be down somewhat this year from the level of last year.

Canada is doing better than most other wheat exporting countries because of substantial sales to China and the U.S.S.R. early this year, some increases in sales to traditional markets such as Japan and the United Kingdom, and continuing attention to credit sales and aid transactions to developing markets.

GRAIN PRICES CONTINUE TO WEAKEN

The outlook for a high level of Canadian grain exports will not, however, result in a sharp increase in the price producers can expect for either wheat or barley. Our grain has had to be priced very competitively in world markets in order to achieve volume sales. Our barley prices have strengthened somewhat with the increased demand of recent weeks but the huge U.S. corn crop of 5.5 billion bushels has been the dominant factor in feed/grain markets. Recent Soviet corn purchases from the U.S. have not eased the price situation to any noticeable extent.

The record corn crop has also had a considerable impact on wheat prices, particularly since there is no longer an agreed international price range for wheat. Low quality wheats are readily interchangeable with corn for feed purposes, and the very large U.S. corn crop has resulted in generally lower feed grain prices. This brought about a drop in prices for lower quality wheat, and since a fairly direct relationship exists between the prices of all types of wheat, the depressing effect of the U.S. corn crop has also been noticeable in the prices for the bread wheats produced on the Canadian Prairies.

The fact that the U.S. produced the largest wheat crop on record this year, including the production of an additional 150 million bushels of hard spring wheat, has not helped the price situation, particularly with the continuous port labor difficulties in the fall that resulted in a drop in U.S. grain exports. In these circumstances there appears to be no disposition south of the border to increase wheat prices.

The aggressive selling policies that are being pursued by Australia are another factor that is preventing any significant improvement in price levels at the present time. At least temporarily being without sales to China, Australia must find alternative markets for her wheat crop. So we have the paradoxical situation where our sales have been good, but prices, internationally, continue to weaken.

Efforts to Strengthen International Grain Prices

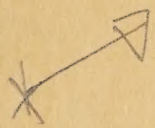
The pricing of Board grains—wheat, oats and barley—is an item of great concern to each and everyone of you, and it's one of the major responsibilities of the Canadian Wheat Board. The Board and its sales staff spend many hours each day assessing current sales and price reports that come in from the four corners of the world. The international information networks of our export agents are very useful in this regard, as are the direct telephone and telex communications that we have with overseas buyers and our overseas representatives in London and Tokyo. We have spent countless hours in the past half dozen years at international meetings, in such places as Brussels, London, Geneva, Rome, Washington, Buenos Aires, Melbourne and Ottawa, trying to reach agreement with our competitors to strengthen the international price level for wheat. So we can assure you that the low level of prices today has not come about because of lack of interest or effort on the part of the Wheat Board. Frankly, there's nothing that would make us happier than to be able to sell record volumes of wheat at substantially higher prices.

As you will remember, the Board has been accused of being too concerned about trying to maintain prices for wheat and barley. We don't apologize for the efforts we made to keep in existence a viable International Wheat Agreement with meaningful price provisions; we only wish they could have been more successful and that the prices for wheat moving in the world today more closely reflected the value of the commodity.

Canada's Position in the World Grain Trade

Now this all brings up rather simple and straight-forward questions that farmers are continually asking. Why can't we set the prices for our products as do other industries? Why do we have to take what is offered rather than demanding the price that is required to cover our costs and provide families with a decent living? The first answer is that we do not necessarily take any price that is offered, but very often bargain to the last $\frac{1}{8}$ of a cent per bushel. Secondly, it is basically a matter of bargaining power. We are limited by the

actions of our competitors.



The Canadian Wheat Board was the outgrowth of Western Canadian efforts via cooperatives to establish a better bargaining position for grain producers. The Board type of organization for improving the bargaining power of producers was quite revolutionary when it was first introduced, but has been widely copied around the world since that time. In the United States, for example, collective bargaining power for farmers is one of the main agricultural policy issues today.

In looking back it is fair to say that the Canadian Wheat Board was quite successful in establishing and maintaining reasonable price levels for Canadian grain. Up until recent years the Board held a strong bargaining position in world trade as Western Canada was virtually the only continuous major supplier of high quality milling wheat. For many years Canada was recognized as the world price leader for wheat and the Board was generally able to set and obtain prices that producers considered at least adequate.

But times have changed and Canada is no longer the price leader in the international wheat trade. Other countries and blocks of countries have moved into the international grain trade in a big way, some with the backing of large national treasuries. There has been growing concentration of control on the import side of the market as well, and technological developments that have reduced the former heavy dependence on high quality imported wheat. All in all therefore the Wheat Board's relative bargaining power in world markets has been greatly reduced. Now if we try to maintain price levels substantially above those of other exporters we will simply lose export sales.

Collective Action By Producers

Thus what is required today is not just cooperative and collective action by one group of farmers in one part of the world but by farmers in all parts of the world. For a start it would be a great help if the major grain exporting countries could reach agreement on reasonable price objectives rather than

continually undercutting each other and forcing export price levels lower and lower. The futility of price cutting in the grain trade over the past several years is at last beginning to be recognized. As long as the problem was confined to grain some countries did not get too interested in finding a solution. But now with heavily subsidized export competition and protective import restrictions spreading, there is a genuine fear of a general trade war. Hopefully, this will startle people and governments enough to bring about some revival in international economic cooperation. If that happens then we think there is hope also for some meaningful negotiations on the international trade in grains.

And to help bring about a return of such cooperation we think it is urgent that producer groups in the major grain producing countries get together and try to work out principles and common objectives for future cooperation. Unilateral action by any one country can not assure an adequate export volume or price for its grain producers. The Canadian Wheat Board will continue to work for increased cooperation and better prices also, but as a marketing organization we dare not press too hard or fast because we could end up antagonizing buyers and suffer losses in sales volume at a time when we can ill afford it. Thus we think producer groups in this country must work with similar groups in other countries to bring about a renewal of interest in cooperation on international grain prices and related trade matters.

Feed Grain Prices in Eastern Canada

Over the last few months The Canadian Wheat Board has been the object of a considerable amount of criticism regarding its pricing policy for feed grains being marketed in Eastern Canada. While it is true that The Canadian Wheat Board has been able to secure a higher price for feed grains moving into the domestic market than feed grains moving into export channels, it is also true that if anything, The Canadian Wheat Board could be faulted for not charging enough for feed grains moving into these markets—given the price of U.S. corn.

The Canadian Wheat Board acts within its legislated terms of reference

in the marketing of feed grains in both the domestic and export markets — namely, pricing so that Western producers realize the maximum revenue from their production. We don't apologize for it. If this is wrong when applied to the domestic market then it becomes a national problem which must be solved at the political level.

It is sometimes said that The Canadian Wheat Board is pricing itself out of the domestic feed grains market over the long run. This contention ignores the fact that the vast U.S. corn supplies just to the south determine Eastern feed grain prices, not Prairie barley. The fact that Ontario and Quebec corn acreage has doubled over the last five years, is strictly a matter of Eastern producer economics. Ontario and Quebec farmers are growing corn because it offers them the greatest net return per acre. Canadian Wheat Board pricing of Western feed grains in this market has little, if any, impact on the long term production trend of corn.

It should be realized, also, that a Canadian Livestock Feed Board was established by the Federal Government. The objectives of this Crown Corporation "are to ensure the availability of feed grain in Eastern Canada and British Columbia, the availability of adequate storage space in Eastern Canada, and the reasonable stability and fair equalization of feed grain prices in Eastern Canada and British Columbia."

The Canadian Wheat Board has cooperated closely with the Livestock Feed Board in order that both bodies can fulfill their respective objectives. Numerous meetings have been held over the years between the two Boards and we believe they have been mutually beneficial. While the Wheat Board does not merchandise feed grains in Eastern Canada but rather sells to Eastern shippers at Thunder Bay, nevertheless the Canadian Wheat Board does attempt to price Lakehead stocks at levels that permit them to be sold competitively in Eastern Canada. In this regard the Livestock Feed Board is continually assessing Eastern feed requirements and prices and relaying this information to the Wheat Board.

CHANGES IN THE DELIVERY QUOTA SYSTEM

Major changes have been made in the quota system to give the Wheat Board more precise control over the delivery of grain from farms to country elevators. There is no question that a selective system of delivery quotas is a valuable aid to our over-all marketing effort. With the ability to call for the delivery of specific kinds, grades and quantities of grain, the Wheat Board obviously is in a better position to meet market demands.

However, the new system has also made it possible to achieve a greater degree of equity in delivery opportunities through the crop year. The situation where delivery quotas tended to vary sharply from one point to the next, of course, was corrected as soon as quotas were authorized on a block-by-block basis. But more important, we are now able to increase quotas on a systematic basis throughout the designated area with the additional information of stocks, grades and deliveries that flow from the operations of the Block Shipping System.

As an operating rule, we are determined to increase delivery quotas only when the space in country elevators is sufficient to take in the additional grain deliveries. The importance of this cannot be over-emphasized. As the first stage in the grain forwarding system, the country-elevator system must remain sufficiently fluid to enable us to meet all of our market commitments and take immediate advantage of any additional sales opportunities that materialize. We simply cannot afford a situation where we are forced to turn down sales because country elevators are jammed to the point where the required grain can't get through.

The Value of Terminating Quotas

This year we are trying out a system of terminating quotas similar to the one proposed by the Boden Committee. The main value of terminating quotas lies in the marketing area. By giving us some means to regulate the flow of grain off farms to meet our sales requirements, the Wheat Board is able to enter the international market more aggressively than before. We're sure we

would not have been as willing to undertake the heavy export program that is now underway, without the assurance that adequate supplies of grain would be available to meet our commitments.

Terminating quotas have the further advantage of involving producers more directly with the marketing process. This is as it should be. As the man who starts the flow of grain towards its overseas destination, the producer has an obligation to the final customer abroad. Since grain is sold for export in specific 20-day periods, every producer must be prepared to deliver his share of the grain that is required to meet our export commitments. For this reason it is important that producers respond as quickly as possible to an increase in delivery quotas. This is the signal that additional quantities of a particular kind or grade of grain are needed for the export program.

Terminating Quotas and Selected Barley

Not all producers look upon terminating quotas as a good thing. This is particularly the case with the producers who wish to ship a carlot of selected barley at some point during the crop year. His concern is that a quota will have expired before his sample of barley has been accepted or before he has completed the shipment.

The Board has received some letters suggesting that an exception be made for those producers who have assigned the required quota acreage to selected barley. By making this exception, it is proposed that a producer should be able to deliver against any quotas that have expired if his sample is ultimately rejected by the selector, or if shipment has been unduly delayed.

The producer's concern is understandable, but the implementation of such a proposal would defeat the purpose of terminating quotas. The Board could not meet our commitments during the crop year if producers wait until June or July to deliver their barley. By allowing deliveries on a retroactive basis producers could side-step the delivery deadlines by simply assigning their entire barley acreage to selected shipments and submitting an endless

number of samples to the selector.

The selected barley market has probably been too much of a one-way street in the past. The selector has a definite obligation to the producer who has submitted a barley sample. That producer has a right to know, before a quota is terminated, whether or not his barley will be accepted for shipment on a selected basis.

CANADA'S GRAIN SHIPPING CAPABILITY

The methods used to control the movement of grain through our grain collection system have been modified significantly in the last three years. But with the large grain production capability that we have on the Prairies it would appear imperative that Canada must continue to gear up its grain handling and transportation facilities to the point where western grain producers can benefit more fully from any sudden expansion in market demand. The only hope for a reasonable return on production for the western grain producer lies in an increased export volume, particularly if grain prices in the international market continue at their present levels. For this reason it is important that we have a system capable of handling even greater quantities of grain than is possible at present.

We do not, for a moment, underestimate the value of the operational changes that have taken place in the last three years. Precise comparisons are difficult to make because the circumstances that influence our sales program have altered so drastically in the last five years. But an estimate that the improvements in our grain collection system have added from 75 to 150 million bushels to our total grain export capability, is not unreasonable.

Changes in the Grain Shipping System

The Block Shipping System, which was the first major step towards a market-oriented grain delivery system, again proved its worth in the last crop year. Without the controls this system provides over the movement of grains

last year's record export of grains and oilseeds could not have been accomplished. Some difficulties were encountered in achieving the shipping programs in some areas during the last few months. But every system, and particularly one that requires the close co-ordination of so many complex elements, involving thousands of people, is bound to run into problems occasionally. With the Block System it was at least possible to identify problems and take corrective action soon enough to avert a major interruption in the flow of grain arriving at terminal positions.

The Block Shipping System also provides a basis for other improvements in the system. The implementation and success of the car-pooling systems at the two main port areas, Vancouver and Thunder Bay, is one of the outstanding examples.

By treating railway cars arriving with wheat and barley as a single source of supply for all terminals, much of the sorting in railway yards was eliminated. Instead of separating cars individually for each terminal, blocks of grain cars can now be moved into position in the terminal yards. The implementation of the car-pooling arrangement brought about an immediate improvement in terminal unload performance. The daily unload capability at West Coast terminals increased from under 600 cars per day to over 700. This means an increase of over four million bushels in monthly export capability of the West Coast ports.

Saturday loading at country elevators was one more step to increase the quantity of grain that could be moved with our present facilities. Its specific purpose was to achieve a more even flow of cars from the country and provide terminals with a steady supply of grain throughout the week. With terminals unloading grain cars six days a week, with the railways operating around the clock seven days a week and with country elevators working on a five-day basis, the handling rate of the three main elements in the system were obviously not evenly matched and, not surprisingly, cars started to bunch when grain shipments were pushed to the maximum. Saturday loading was designed to alleviate this problem.

Building a Highly Co-ordinated Shipping System

It is worthwhile to put all these changes into a proper perspective. The new quota system, the block system, car-pooling and Saturday loading—to list the main changes—are all part of a total effort to achieve a maximum performance from our existing grain handling and transportation facilities. We have moved beyond the point where each segment of the grain handling and transportation system can carry on its operations without regard to the effect its actions may have on the operations of the other elements in this system. In our efforts to build a highly-co-ordinated system, we must be concerned with all segments involved in the movement of grain to ensure that they are properly synchronized.

In this respect, movement of grain from farms to terminals can be likened to the production line of an automobile factory. The departments that service that production line must be highly co-ordinated to ensure that all the parts come together at the right place and time. Imagine the dismay of the car buyer who finds that the car he bought has a pink door on one side, and a purple one on the other.

Our grain customers are not too different. Their demands are also becoming increasingly precise. As a grain-exporting nation that strives to be fully competitive in the international market, we must be able to satisfy these requirements. The improved delivery system, together with the introduction of protein as a grading factor in wheat, gives us the ability to tailor our grain shipments more precisely to customer requirements. As a result, Canada is now capable of moving far more grain than before and is also able to react much more quickly to specific buyer demands and unexpected market opportunities. Our ability to take advantage of the marketing opportunities that developed as a result of the shut-down in U.S. ports on the Pacific coast is a prime example of this.

Building to Meet Future Export Needs

While we can look at the improvements that have been made in the grain collection system in the last three years with some satisfaction, we have now reached the point where further operational changes can only increase our overall grain shipping capability up to a certain point. It may be possible to export more than 800 million bushels a year with our present facilities, but only if all factors that affect the movement of grain work in perfect harmony.

Considering the fact that hardly a week now goes by without an interruption in the grain flow somewhere, such a harmonious state of affairs seems hard to achieve. A continuing problem over which we have no control is the irregular arrival of ocean vessels. Since these vessels are subject to the operations of other ports and weather conditions on the high seas, it may never be possible to overcome this problem completely. Nevertheless, the arrival of ocean vessels influence the total quantities that can be put through a port in a given period. October shipments from the West Coast are a good case in point. More than 30 million bushels of grain were booked for shipment from the Pacific in that month. Yet, with a drop in vessel arrivals, only 23 million bushels were actually cleared. The balance had to be moved in November.

Fluctuating Customer Requirements

The other factor that affects port utilization is the fluctuation in market demand from month to month and year to year.

As the marketing agency for the major Prairie grains, the Canadian Wheat Board has been reasonably successful, by one means or another, in persuading buyers to accept delivery of grain in accordance with our shipping capacity. But there is a limit to the extent that this can be done. The buyer is concerned with his own requirements for specific periods and if we, as Canadians, are unable to satisfy his needs in those periods, then he will go elsewhere for his grain supplies.

These are the practical limitations that tend to restrict our total sales

volume. While it is difficult to come up with any precise figures, there is no doubt that we could have sold considerably greater quantities of wheat and barley for shipment in specific periods if we had had the shipping capacity.

Bigger Surge Capability Needed

For these reasons it is important that steps be taken as soon as possible to increase our export capability. The experience of the last 19 months demonstrates clearly that additional surge capacity is needed in the system if we are to take full advantage of existing sales opportunities. Vancouver, for example, requires a surge capability of 40 to 45 million bushels during the months of heavy export demand if we are to achieve average clearances of 30 million a month.

Some people look for easy, instant means for increasing our export capability. Unfortunately, most of the proposals so freely suggested would increase the costs that must be borne by producers without, in the end, providing any significant increase in Canada's total through-put capacity.

It must be recognized that any important additions to our present transportation and handling facilities will involve the expenditure of large sums of money. For this reason it is important that the problem be approached with considerable caution. The Grains Group has made serious and extensive studies in this regard. Their studies are being given careful examination by the grain handling companies and the railroads to identify those areas where new investment would give the best return in terms of dollars and additional through-put capacity. Considering the economic importance of grain to this country, it is essential that decisions and actions should be undertaken as soon as possible. Unless this is done, we as an industry and as Canadians, will in effect be abdicating our role as one of the world's leading grain exporters. Given our capability in grain production such a position is untenable.

MOVING NON-BOARD GRAINS

The non-Board grains — flax, rapeseed and rye — are marketed under somewhat different structures and represent a relatively small part of our total grain crop and export volume. Every effort is being made to ensure that the non-Board grains will not jeopardize the movement of the principle grains grown on the Prairies. Since both the Board grains and the non-Board grains have to be moved through the same handling and transportation facilities, problems are bound to occur in periods when the system is operating close to its maximum capacity. An equitable allocation of facilities is extremely difficult to achieve during an extended period, such as the present, when a very heavy export program is underway.

The responsibility of allocating handling and transportation facilities falls largely on the shoulders of the Canadian Wheat Board. This is now done in two ways; firstly, the application of quotas to control the quantities of flax, rapeseed and rye that can be delivered to country elevators; and secondly, the assignment of railway cars for the movement of these grains under the Block Shipping System.

Given the marketing system that is employed for non-Board grains, it would probably be desirable if quotas were not applied in this area. This would permit the market to respond more freely to the existing supply and demand situation. But you cannot ignore the effect this could have on producer deliveries. Once the production of a crop such as rapeseed exceeds 50 million bushels a year, quotas to control deliveries are necessary to ensure that the working space in country elevators remains sufficiently fluid to handle the other grains that must move through. The Wheat Board, acting in consultation with the grain trade, makes every effort to ensure that delivery quotas will not exert undue influence in the market for non-Board grains.

The problems associated with the forward movement of non-Board grains are perhaps more serious. This would not be an issue at all if our throughput capacity were unlimited. But since this is not the case it becomes neces-

sary to allocate our grain handling and transportation facilities. In our view, such an allocation can only be based on the quantities of non-Board grains that are needed to meet actual export commitments. To use any other criteria inevitably leads to an inefficient use of our facilities and, in the final analysis, undermines our efforts to achieve a maximum level of export sales.

This is a point worth stressing. At a time when the physical capacity of our grain handling and transportation facilities is already preventing us from taking full advantage of our sales potential, we cannot afford a situation where one branch of our grain marketing service requires a disproportionate share of our total shipping or storage capacity for its own operations.

This has been happening. Without full knowledge of the forward sales position for oilseeds, it has been impossible for the Wheat Board to prevent the shipment of excessive quantities of these grains into terminal positions from time to time. The problem has been particularly serious at Vancouver although it has also happened at Thunder Bay. However, exporters have now agreed to provide the Wheat Board with advance information on oilseed sales. Under this arrangement, the quantities committed for export will be reported to the Board two to three months prior to the shipment date. If this arrangement works as well as we hope, it will then be possible to avoid this particular problem in the future.

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